Volume XXX

The Real Estate TRENDS

OCTOBER 31
1961

A concise monthly digest of real estate and construction fundamentals and trends . . . A part of the complete service known as the Real Estate Analyst Reports

Number 48

REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

DRIFTING

THERE are times when various charts showing real estate trends are moving definitely either up or down. There is no such pronounced movement at the present time, nor does it seem that we are poised to take off in either direction. For the remainder of this year we expect real estate to drift along about at its present pace, while other factors in the economy are making up their minds as to whether they will help or hinder the recovery.

The urgency is no longer present in the housing demand. While residential building is exceeding a year ago, this is due primarily to the building of multi-family dwelling units, many of which stand at least partially vacant at completion. How much longer we can continue to build for a market some months or years hence is problematical. It is true that the "population explosion" will eventually fill these rental units, but will this occur in time to keep solvent projects built with excessive mortgages and insufficient capital to weather the initial period?

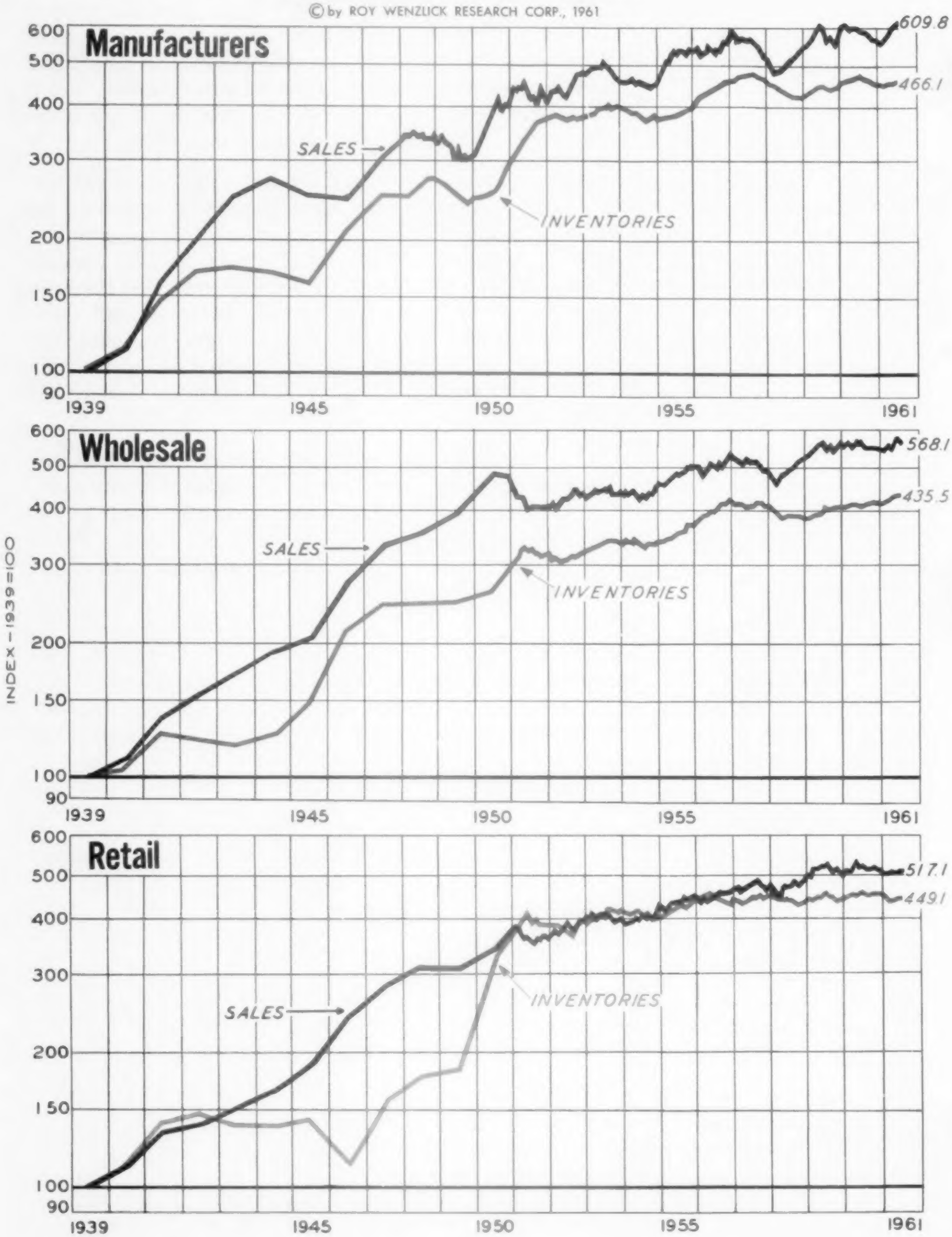
While it seems that there are many reasons for thinking that recovery is underway in general business, there are still many factors which are not yet pulling up. Some of the positive and negative factors are shown on the following pages.

The chart on the next page is concerned primarily with inventories. The top panel would indicate that during the past six months manufacturers' sales have shown a substantial pickup. Inventories during this period have shown relatively little change. If the upward trend in sales continues, it will be necessary to increase inventories, although it is apparent from this chart that better controls and faster shipments have resulted in a smaller inventory to sales relationship than was necessary in 1939.

While wholesale activity has shown a slight pickup in the last six months, there has certainly been no pronounced trend since the middle of 1959. Inventories have shown a slow but consistent increase for the last $2\frac{1}{2}$ years.

The real test of the recovery is, of course, in retail sales. Unless the ultimate consumer will take the goods off the shelves, other increases cannot be maintained without clogging the pipeline. The chart on page 546 would indicate that this recovery has not yet been assured.

INVENTORIES AND SALES

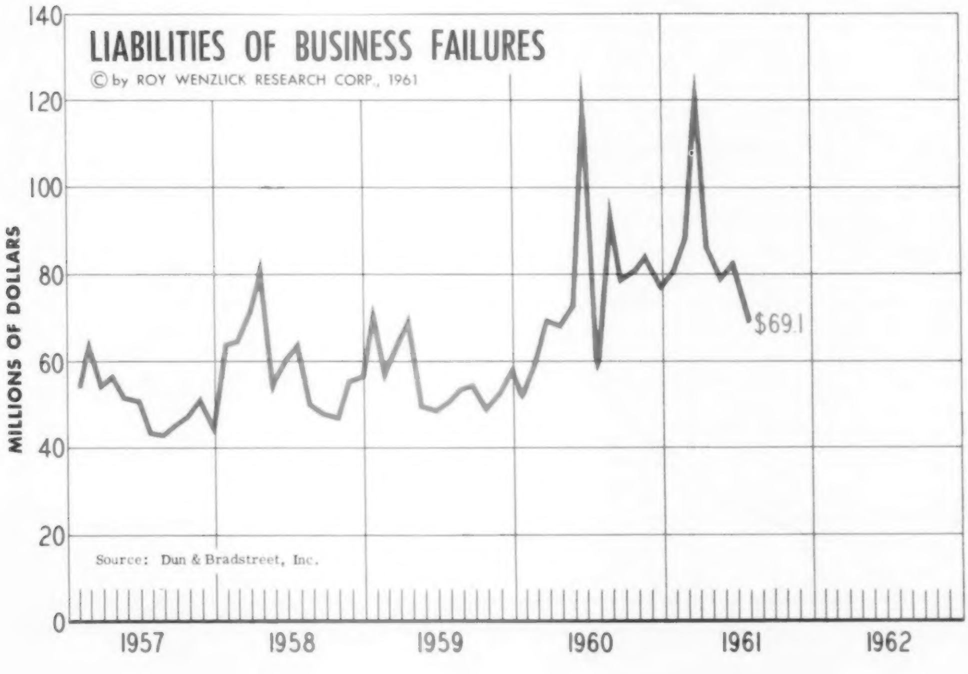


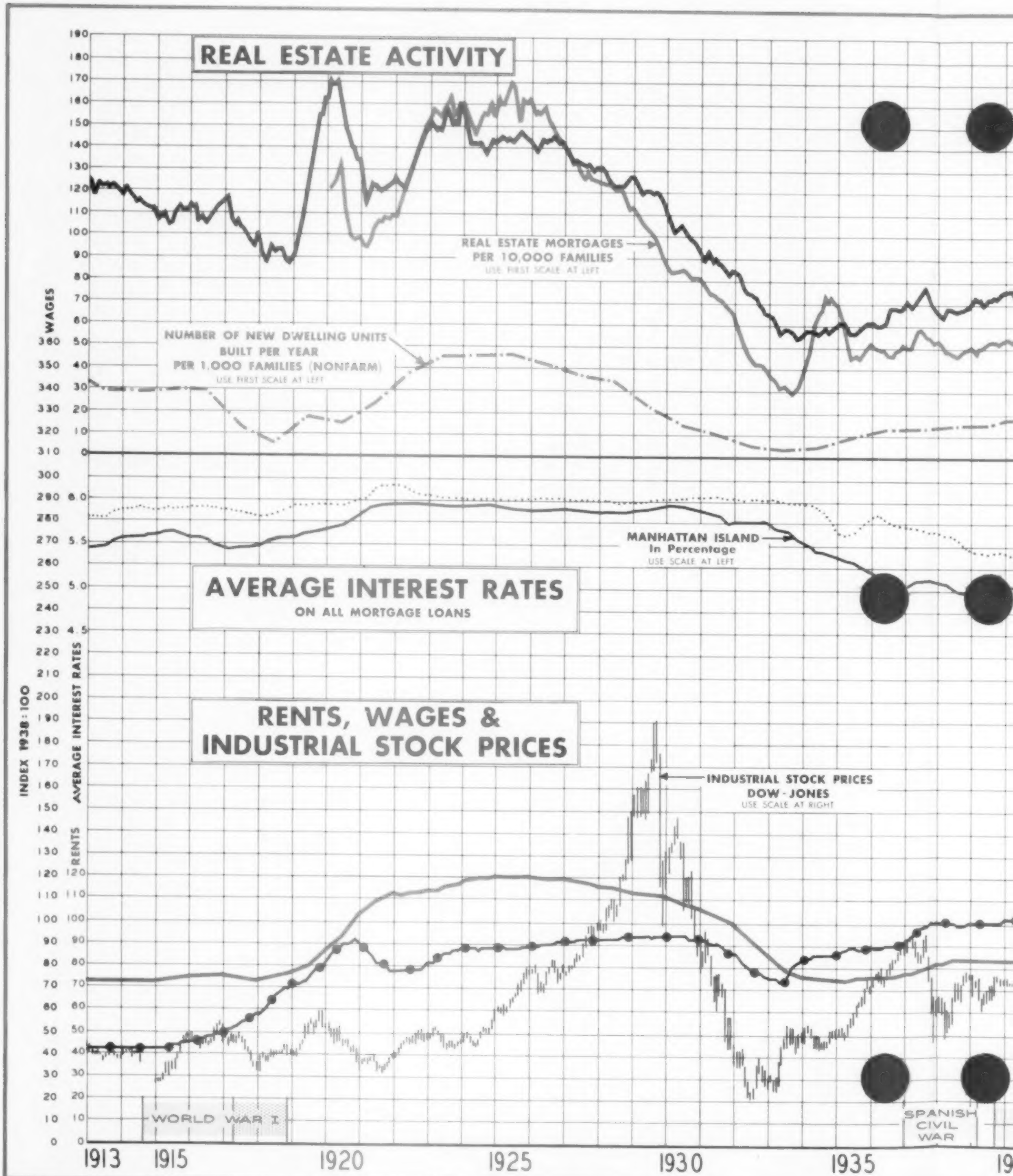
The chart on liabilities of business failures below is relatively encouraging if the trends are considered for the past few months only. For the first 7 months of this year, liabilities of failures exceeded the same period of a year ago by just more than one hundred million dollars, or 16 percent. If liabilities continue down during the next few months, it will be quite encouraging, but if they go up again by any large percentage, it would indicate that all of our troubles are not yet washed out and that further liquidation must take place.

The spread on the following two pages is primarily concerned with various real estate barometers. The line showing real estate activity is based on the number of voluntary real estate transfers per 10,000 families. It has now declined for one year longer than it did from 1920 to 1933, but it is still considerably higher than it was then, and will probably not decline much farther unless a general collapse in business were to take place, and this does not seem probable at present. The decline in mortgage activity has now continued for three more years than it did in the period that followed 1925 but here, too, the drop has not been so great. While no rapid increase is in sight, it looks as if the long decline is drawing to a close.

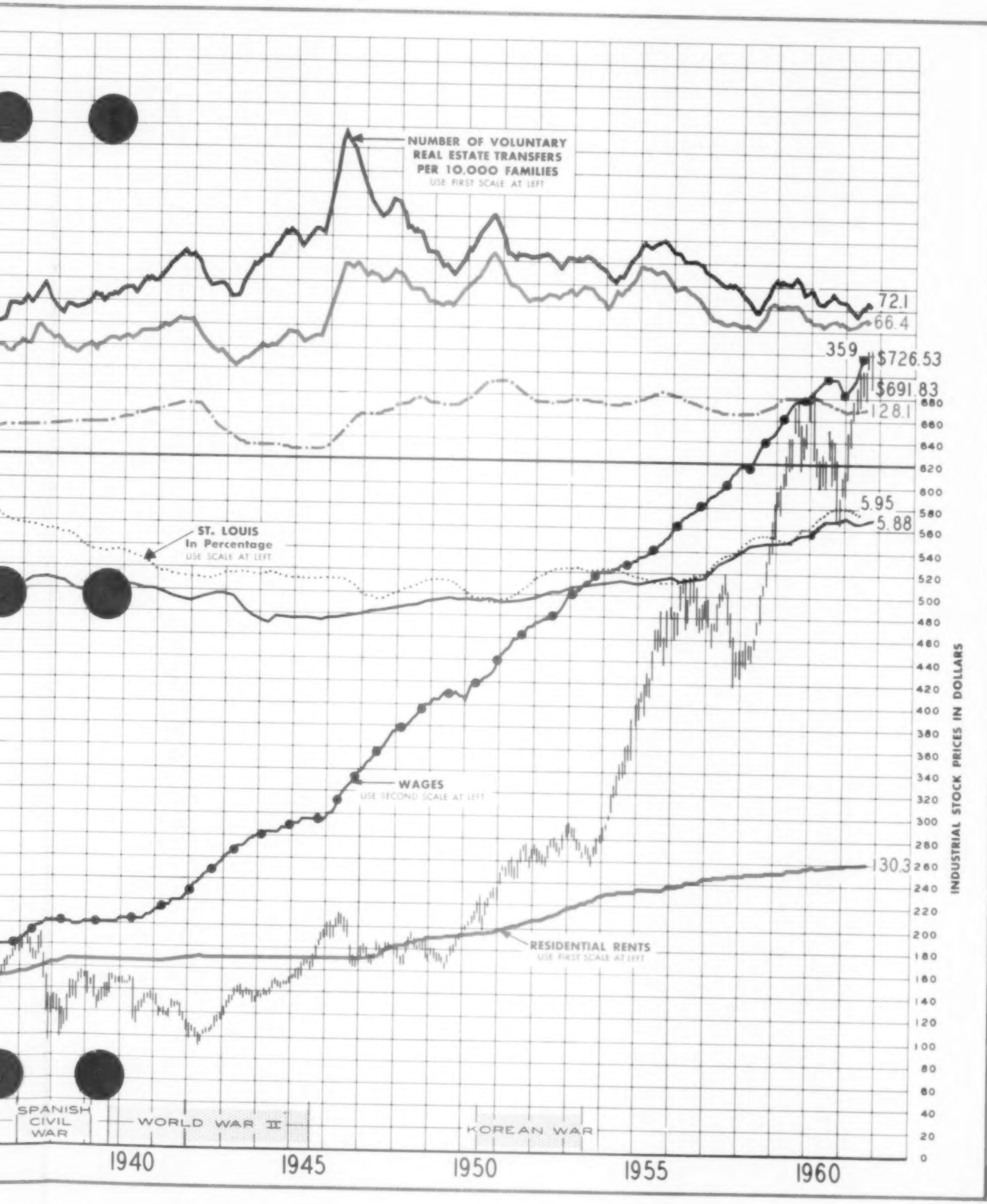
The number of new dwelling units built per year per thousand families has had a very slight upward drift during 1961. Here, too, the outlook is for more of a sideways movement than a rapid recovery. Vacancies are too high to expect a sudden spurt, and the values of existing buildings have been soft. These are not the factors which generally precede an increase in building volume.

(cont. on page 550)





REAL ESTATE ACTIVITY
REAL ESTATE MORTGAGES PER 10,000 FAMILIES
USE FIRST SCALE AT LEFT
NUMBER OF NEW DWELLING UNITS BUILT PER YEAR PER 1,000 FAMILIES (NONFARM)
USE FIRST SCALE AT LEFT
MANHATTAN ISLAND In Percentage
USE SCALE AT LEFT
AVERAGE INTEREST RATES
ON ALL MORTGAGE LOANS
RENTS, WAGES & INDUSTRIAL STOCK PRICES
INDUSTRIAL STOCK PRICES DOW-JONES
USE SCALE AT RIGHT
WAGES
INDEX 1938:100
AVERAGE INTEREST RATES
RENTS
WORLD WAR I
SPANISH CIVIL WAR
1913
1915
1920
1925
1930
1935



NUMBER OF VOLUNTARY REAL ESTATE TRANSFERS PER 10,000 FAMILIES
USE FIRST SCALE AT LEFT
72.1
66.4
359
$726.53
$691.83
128.1
ST. LOUIS In Percentage
USE SCALE AT LEFT
5.95
5.88
WAGES
USE SECOND SCALE AT LEFT
130.3
RESIDENTIAL RENTS
USE FIRST SCALE AT LEFT
INDUSTRIAL STOCK PRICES IN DOLLARS
680
660
640
620
600
580
560
540
520
500
480
460
440
420
400
380
360
340
320
300
280
260
240
220
200
180
160
140
120
100
80
60
40
20
0
SPANISH CIVIL WAR
WORLD WAR II
KOREAN WAR
1940
1945
1950
1955
1960

(cont. from page 547)

Residential rents, toward the bottom of the chart, are still creeping higher, as they have been for the last fifteen years, but the rate of increase is too slow to be stimulating.

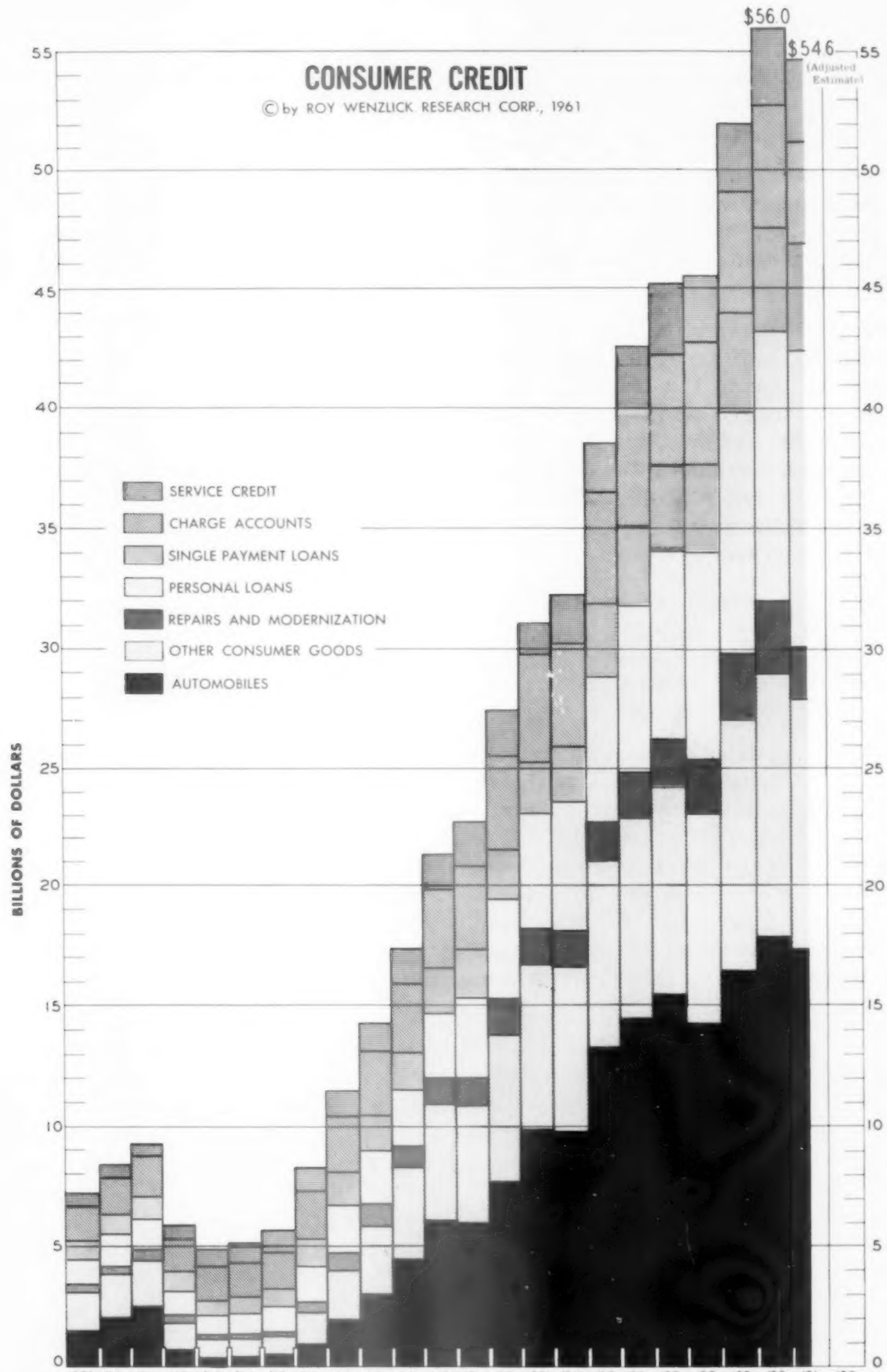
Interest rates on mortgages will probably show little change during the next six months, with more pronounced changes coming in the last half of next year. In our opinion, we have seen the bottom in interest rates for the present, meaning that this is a good time to finance the purchase of carefully selected real estate.

The line showing the increase in wages in the United States shows why we can constantly afford higher standards of living. While, of course, part of this increase is due to the lower purchasing power of the dollar, the remainder results largely from the greater productivity of labor, due almost entirely to more efficient methods, tools, and machinery. The average family can afford a far better house than it could formerly without spending as great a percentage of its income for a house. We can expect a higher and more expensive type of housing in the next few years, just as the housing of today exceeds in quality that of some years ago.

The stock market to us still represents the most dangerous part of the economic picture. It is clearly saying that it expects a great deal of additional inflation, and it is probably right in this expectation. It seems to us, however, that this inflation is farther off than the market expects, and that in view of the immediate outlook, the market is much too high.

Further inflation seems inevitable in the United States. With the intensification of the Cold War and with the various welfare programs which are now either actually in the works or in prospect, it is probable that inflation will exceed an average of 2 percent per year. This does not mean, however, that at the end of 4 years the purchasing power of the dollar will have declined by 8 percent. It does mean that at the end of 10 years it will have declined by a minimum of 20 percent. We would not be surprised if in the next few years various reactions in the economy would prevent any radical increase in price. After some of these adjustments are completed, however, price rises could come quite rapidly.

The ultimate consumer is being stubborn, or is showing good judgment, depending on the point of view. The chart opposite shows consumer credit from 1939 to the present, and it will be noticed that for the first time since 1943 the total volume of consumer credit has dropped. This would indicate that the consumer is concerned about the outlook, and that he is trying to get himself in a better cash position. If further adjustment in our economy is in prospect for the next year or so, he is wise, as he will probably have opportunities to buy on a more favorable market. If, on the other hand, inflation is already catching hold and will increase rapidly during the next few years, he is overcautious, as during a period of rapid inflation the only wise man is the spendthrift. A person who spends all he makes as fast as he makes it will actually get more goods and services in a period of rapid inflation than will the cautious



CONSUMER CREDIT
© by ROY WENZLICK RESEARCH CORP., 1961
$56.0
$54.6
(Adjusted Estimate)
SERVICE CREDIT
CHARGE ACCOUNTS
SINGLE PAYMENT LOANS
PERSONAL LOANS
REPAIRS AND MODERNIZATION
OTHER CONSUMER GOODS
AUTOMOBILES
BILLIONS OF DOLLARS
0 5 10 15 20 25 30 35 40 45 50 55
1939 '40 '41 '42 '43 '44 '45 '46 '47 '48 '49 1950 '51 '52 '53 '54 '55 '56 '57 '58 '59 '60 '61 '62

individual who saves his money and puts it out at interest which will not offset the loss in purchasing power.

The chart below shows a comparison of the total labor cost index and the total material cost index on our standard six-room frame house from 1946 to the present. The building materials which go into this house cost less now than they did in 1956, and they cost considerably less than they did in the first few months of 1960. The general softness in the building market has resulted in intense competition among the building material manufacturers who must depend on volume sales for a profit. On the other hand, the labor cost going into our house has consistently advanced. There has not been a drop in the labor cost on our house since the latter part of 1948, and from the beginning of 1949 to the present the labor cost has increased by 72 percent. In comparison, the building material cost over the same period has increased by 14.3 percent.

From the standpoint of the consumer it is certainly unfortunate that the cost of shelter has advanced in this fashion during the postwar period. From the standpoint of the mortgage lender the increase in replacement cost new resulting from these increases in labor and material costs has resulted in selling prices of existing dwellings considerably higher than we would otherwise have. This has prevented a foreclosure level which we would probably now be experiencing had replacement costs remained constant. In a period of rapidly increasing construction costs, the increase in replacement cost new offsets depreciation and obsolescence, as the most important single factor in the changes in selling prices of single-family residences is the cost of replacing them.